

# **City of Santa Cruz**

Santa Cruz, California

## **Single Audit and Independent Auditors' Reports**

*For the Year Ended June 30, 2023*





# City of Santa Cruz

## Table of Contents

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	<u>Page</u>
<b>Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.....</b>	1
<b>Independent Auditors' Report on Compliance for Each Major Federal Program, on Internal Control Over Compliance Required by the Uniform Guidance, and on Schedule of Expenditures of Federal Awards.....</b>	3
Schedule of Expenditures of Federal Awards .....	6
Notes to the Schedule of Expenditures of Federal Awards.....	8
Schedule of Findings and Questioned Costs .....	10

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Independent Auditors' Report**

To the Honorable Mayor and Members of City Council  
of the City of Santa Cruz  
Santa Cruz, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santa Cruz (the "City"), as of and for the year ended June 30, 2023, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 19, 2024.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

To the Honorable Mayor and Members of City Council  
of the City of Santa Cruz  
Santa Cruz, California  
Page 2

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Santa Ana, California  
January 19, 2024



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM,  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE  
UNIFORM GUIDANCE, AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Independent Auditors' Report**

To the Honorable Mayor and Members of City Council  
of the City of Santa Cruz  
Santa Cruz, California

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited City of Santa Cruz, California's (the "City") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2023. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

### ***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control Over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.



To the Honorable Mayor and Members of City Council  
of the City of Santa Cruz  
Santa Cruz, California  
Page 3

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 19, 2024, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California  
March 22, 2024, except for the Schedule of Expenditures of Federal Awards, which is dated January 19, 2024.

**City of Santa Cruz**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2023**

Federal Grantor/Pass - Through Grantor/Program Title	Assistance Listing Number	Grant Identification Number	Federal Expenditures	Amount Provided to Subrecipients
<b><u>U.S. Department of Commerce</u></b>				
<i>Direct Programs:</i>				
Economic Adjustment Assistance	11.307	07-01-07718	\$ 620,000	\$ -
Economic Adjustment Assistance	11.307	07-79-07799	145,055	-
<b>Total U.S. Department of Commerce</b>			<b>765,055</b>	<b>-</b>
<b><u>U.S. Department of Housing and Urban Development</u></b>				
<b>CDBG - Entitlement Grants Cluster:</b>				
<i>Direct Programs:</i>				
Community Development Block Grant	14.218	B-13-MC-66-0024	35,000	-
Community Development Block Grant	14.218	B-15-MC-06-0024	269,577	-
<b>Total CDBG - Entitlement Grants Cluster</b>			<b>304,577</b>	<b>-</b>
<i>Direct Programs:</i>				
HOME Investment Partnerships Program	14.239	M-15-MC-06-0236	82,064	-
<b>Total U.S. Housing and Urban Development</b>			<b>386,641</b>	<b>-</b>
<b><u>U.S. Department of the Interior</u></b>				
<i>Direct Programs:</i>				
Fish Wildlife Service Grant for Arana Gulch Tarplant Recovery	15.664	F21AC03184-00	7,530	-
<b>Total U.S. Department of the Interior</b>			<b>7,530</b>	<b>-</b>
<b><u>U.S. Department of Transportation</u></b>				
<b>Highway Planning and Construction Cluster:</b>				
<i>Passed through the California Department of Transportation:</i>				
Highway Safety Improvement Program (HSIP)	20.205	STPLX-5025(048)	550,527	-
Highway Safety Improvement Program (HSIP)	20.205	ATPL- 5025(072)	2,443,609	-
Highway Safety Improvement Program (HSIP)	20.205	HSIPSL-5025(078)	530	-
Highway Safety Improvement Program (HSIP)	20.205	HSIPSL-5025(079)	163	-
<b>Total Highway Planning and Construction Cluster</b>			<b>2,994,829</b>	<b>-</b>
<b>Highway Safety Cluster:</b>				
<i>Passed through County of Santa Cruz:</i>				
Selective Traffic Enforcement Program - State and Community Highway Safety	20.600	PS22027	4,159	-
Selective Traffic Enforcement Program - Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT19110	19,213	-
<b>Total Highway Safety Cluster</b>			<b>23,372</b>	<b>-</b>
<b>Total U.S. Department of Transportation</b>			<b>3,018,201</b>	<b>-</b>
<b><u>U.S. Department of Treasury</u></b>				
<i>Direct Programs:</i>				
Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	3,997,425	-
<b>Total U.S. Department of Treasury</b>			<b>3,997,425</b>	<b>-</b>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**City of Santa Cruz**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended June 30, 2023**

Federal Grantor/Pass - Through Grantor/Program Title	Assistance Listing Number	Grant Identification Number	Federal Expenditures	Amount Provided to Subrecipients
<b>U.S. Environmental Protection Agency</b>				
<i>Passed through California State Water Resource Control Board (SWRCB):</i>				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	4410010-002C	19,411,492	-
Capitalization Grants for Drinking Water State Revolving Funds	66.468	4410010-001C	9,465,155	-
<b>Total Capitalization Grants for Drinking Water State Revolving Funds Program</b>			<u>28,876,647</u>	<u>-</u>
<b>Total U.S. Environmental Protection Agency</b>			<u>28,876,647</u>	<u>-</u>
<b>U.S. Department of Homeland Security</b>				
<i>Passed through the California Governor's Office of Emergency Services (CGES):</i>				
Disaster Grants-Public Assistance	97.036	DR-4683 & 4699	608,027	-
Disaster Grants-Public Assistance	97.036	DR 4308 PW 879	236,894	-
Disaster Grants-Public Assistance	97.036	DR 4482 PW 1451-0	38,158	-
<b>Total Disaster Grants-Public Assistance</b>			<u>883,079</u>	<u>-</u>
<i>Direct Programs:</i>				
Hazard Mitigation Grant Program	97.039	70-0700-0-1-999	499,281	-
<i>Passed through County of Santa Cruz:</i>				
Homeland Security Grant Program	97.067	2020-0095	48,559	-
Homeland Security Grant Program	97.067	2021-0081	85,523	-
<b>Total Homeland Security Grant Program</b>			<u>134,082</u>	<u>-</u>
<b>Total U.S. Department of Homeland Security</b>			<u>1,516,442</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 38,567,941</u>	<u>\$ -</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**City of Santa Cruz**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2023**

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**Note 1 – Reporting Entity**

The City of Santa Cruz (the "City") was incorporated as a town in 1866 under the laws of the State of California. It became a City in 1876. The City is a charter city administered under a council/manager form of government.

The financial statements present the City and its component units (legally separate entities for which the City is considered to be financially accountable). Component units include those entities for which the City may have governing authority or is in a relationship of financial benefit or burden. Component units also include entities that are fiscally dependent upon the City. The financial activities of these entities are integrally related to those of the City and, therefore, blended with those of the City. Blending involves combining component unit data with City data in the Government- Wide Financial Statements.

Based on the above criteria, the accompanying financial statements include the financial activities of the following entities as blended component units:

*Santa Cruz Public Improvement Financing Corporation* – The Santa Cruz Public Improvement Financing Corporation (“Corporation”) is a non-profit benefit corporation organized and operated under the laws of the State of California. The primary purpose of the Corporation is to serve as a financing vehicle for the City. The City Council is responsible for the operations of the Corporation. Separate financial statements are not prepared for the Corporation.

*City of Santa Cruz Public Financing Authority* – The City of Santa Cruz Public Financing Authority (“Authority”) is a Joint Powers Authority formed February 14, 2006, between the former Redevelopment Agency and the City for the purpose of creating a public agency which could provide financial assistance to the former Redevelopment Agency and the City in connection with the construction of public capital improvements. Separate financial statements are not prepared for the Authority.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self- balancing accounts that comprise its assets, liabilities, fund equity, deferred inflows/outflows of resources, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

**Note 2 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of the City under programs of the federal government for the year ended June 30, 2023. Federal awards received directly from federal agencies and received through other governmental agencies are included on the schedule of expenditures of federal awards. The grant period may be different from City's fiscal year, which is from July 1 through June 30. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or fund balances of the City.

**City of Santa Cruz**  
**Notes to the Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 3 – Summary of Significant Accounting Policies**

Expenditures reported in the schedule are reported on the modified accrual basis of accounting except for programs reported in the City's enterprise funds, which are presented using the accrual basis of accounting, which is described in Note 1 to the City's basic financial statements. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 4 – Subrecipients**

The City did not provide any amounts to subrecipients during the fiscal year ended June 30, 2023.

**Note 5 – Indirect Cost Rate**

The City has not elected to use the 10-percent de minimis indirect rate as allowed under the Uniform Guidance.

**Note 6 – Contingencies**

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

**City of Santa Cruz**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2023**

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**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported

Type of auditors’ report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs:

Assistance Listing Number	Name of Federal Program or Cluster	Federal Expenditures
21.027	Coronavirus State and Local Fiscal Recovery Fund	\$ 3,997,425
66.468	Capitalization Grants for Drinking Water State Revolving Funds	28,876,647
97.039	Homeland Security Grant Program	499,281
	Total Expenditures of All Major Federal Programs	\$ 33,373,353
	Total Expenditures of Federal Awards	\$ 38,567,941
	Percentage of Total Expenditures of Federal Awards	86.53%

Dollar threshold used to distinguish between type A and type B programs \$1,157,038

Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520? No

**City of Santa Cruz**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2023**

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**Section II – Financial Statement Findings**

**A. Current Year Findings – Financial Statement Audit**

No findings were noted on the City’s financial statement audit for the year ended June 30, 2023.

**B. Prior Year Findings – Financial Statement Audit**

No findings were noted on the City’s financial statement audit for the year ended June 30, 2022.

**Section III – Federal Award Findings**

**A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit**

No findings or questioned costs were noted on the City’s major federal programs for the year ended June 30, 2023.

**B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit**

No findings or questioned costs were noted on the City’s major federal programs for the year ended June 30, 2022.

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